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Message Text

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PAGE 01 MADRID 07081 231444Z
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EUR/WE ALSO PASS AMBASSADOR TODMAN

E.O. 11652: N/A
TAGS: EFIN, SP
SUBJECT: PROPOSED U.S.-SPAIN INCOME TAX TREATY

REF: STATE 153346

1. EMBASSY OFFICER CALLED ON SPANISH CHIEF NEGOTIATOR DE LA VILLA (FINANCE MINISTRY) ON JUNE 22 TO DISCUSS THE STALLED TAX TREATY NEGOTIATIONS. DE LA VILLA WAS EXTREMELY CORDIAL, AND MORE FORTHCOMING THAN ON PREVIOUS OCCASIONS, BUT HE REITERATED WHAT HAS BEEN THE SPANISH POSITION SINCE LAST NOVEMBER: NEGOTIATIONS CANNOT BE WOUND UP UNTIL THE SPANISH PARLIAMENT COMPLETES A MAJOR REWRITING OF LAWS ON THE TAXATION OF PERSONAL AND CORPORATE INCOME AND OF CAPITAL (OR WEALTH). ACCORDING TO DE LA VILLA THE "TRANSCENDENCE" OF A TAX TREATY WITH THE U.S. REQUIRES THAT IT BE UP-TO-DATE AND ENDURING.

2. DE LA VILLA WOULD NOT COMMENT ON THE OUTSTANDING ISSUE OF MANAGEMENT FEES TREATED IN THE SEPTEMBER 1977 LETTER FROM THE U.S. SIDE. HE SAID IT WOULD BE INAPPROPRIATE TO DO SO BECAUSE THE PROSPECTIVE TAX LAW REFORMS WILL RAISE "MANY" ADDITIONAL ISSUES OF GREATER IMPORTANCE. PUSHED TO DESCRIBE NEW TREATY ISSUES RAISED BY THE DRAFT
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TAX LAWS, DE LA VILLA GAVE AS EXAMPLES THE DISAPPEARANCE OF MANY SPANISH TAXES MENTIONED IN ARTICLE 2(B) OF THE U.S.-SPANISH DRAFT, THE CREATION OF A SPANISH SYSTEM OF LOCAL TAXATION, AND TAX RELIEF FROM THE CURRENT "DOUBLE TAXATION" OF DIVIDENDS UNDER BOTH THE CORPORATE AND PERSONAL INCOME TAXES.

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3. WHILE DE LA VILLA CANNOT KNOW WHEN PARLIAMENT WILL ENACT THE TAX REFORMS, HE IMPLIED THAT IT MAY HAPPEN IN THE FALL OR AS LATE AS WINTER. DE LA VILLA ADDED THAT TAX REFORM WAS STILL FINANCE MINISTER FERNANDEZ ORDONEZ' NUMBER ONE PRIORITY.

4. THE SPANISH DESIRE TO DEFER FURTHER NEGOTIATIONS HAS THE EXPRESS BACKING OF THE MINISTRIES OF FINANCE AND FOREIGN AFFAIRS, AND EARLIER THIS YEAR WAS DEFENDED BY THE FINANCE MINISTER WITH SECRETARY BLUMENTHAL. THIS MOST RECENT DISCUSSION WITH DE LA VILLA CONFIRMED THAT THE SPANISH ARE CONVINCED THEY CANNOT PROCEED WITH THE TAX TREATY NEGOTIATIONS UNTIL NEW TAX LAWS ARE IN PLACE. BY ITSELF THIS DOES NOT STRIKE US AS ADVERSE, BUT DE LA VILLA ALSO MENTIONED THIS "INHERITANCE" FROM HIS PRE-DECESSOR DEL ARCO IN A MANNER CALCULATED TO IMPLY PERSONAL ENTHUSIASM FOR A BROAD RENEGOTIATION OF ITEMS PREVIOUSLY AGREED TO. IN ANY CASE WE NOW SEE VIRTUALLY NO POSSIBILITY FOR AVOIDING ANOTHER ROUND OF FORMAL NEGOTIATIONS AFTER THE U.S. SIDE HAS HAD A CHANCE TO STUDY NEW GOS TAX LAWS.

5. ON APPROPRIATE OCCASIONS WE PLAN TO REITERATE OUR MUTUAL INTEREST IN AVOIDING ANY UNNECESSARY LOSS OF MOMENTUM IN THESE NEGOTIATIONS, AND AS SOON AS THE TAX REFORMS ARE ENACTED WE WILL FORWARD THEM TO TREASURY FOR STUDY. EATON
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Message Attributes

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Decaption Date: 01 jan 1960
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Disposition Case Number: n/a
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Disposition History: n/a
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Disposition Remarks:
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